PANAMA

Table 1	2023
Population, million	4.5
GDP, current US$ billion	83.4
GDP per capita, current US$	18700.8
International poverty rate ($2.15)[a]	1.3
Lower middle-income poverty rate ($3.65)[a]	4.4
Upper middle-income poverty rate ($6.85)[a]	12.9
Gini index[a]	48.9
School enrollment, primary (% gross)[b]	101.5
Life expectancy at birth, years[b]	76.8
Total GHG emissions (mtCO2e)	27.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2023), 2017 PPPs.
b/ Most recent WDI value (2022).

Growth reached 7.3 percent in 2023 fueled by strong construction, commerce, tourism, and financial activities. Improving labor market conditions offset the rollback of emergency transfers keeping the poverty rate at around 13 percent. However, developments in the final quarter of 2023 (draught affecting the Canal traffic, protests, and the closure of a copper mine) are expected to temper the economic and fiscal outlooks. A quick implementation of structural reforms by the new administration could help offset these adverse impacts.

Key conditions and challenges

Panama is an important logistical and financial hub in Central America, given its strategic location, the criticality of the Panama Canal to global trade, and its dollarized economy. Panama has grown robustly over the past 30 years, supported by capital and labor accumulation, leading to strong job creation and a sharp decrease in poverty (from 48.2 percent in 1991 to 12.9 percent in 2023 at $6.85/day 2017 PPP). However, Panama remains one of the most unequal countries in the world, with pockets of high poverty in rural areas and among indigenous communities. This reflects unequal labor market opportunities and limited fiscal redistribution. Slower growth before and during the pandemic led to increases in unemployment and informality. While the labor market is yet to fully recover, the government's emergency transfer (Nuevo Programa Panama Solidario—NPPS) has helped contain poverty.

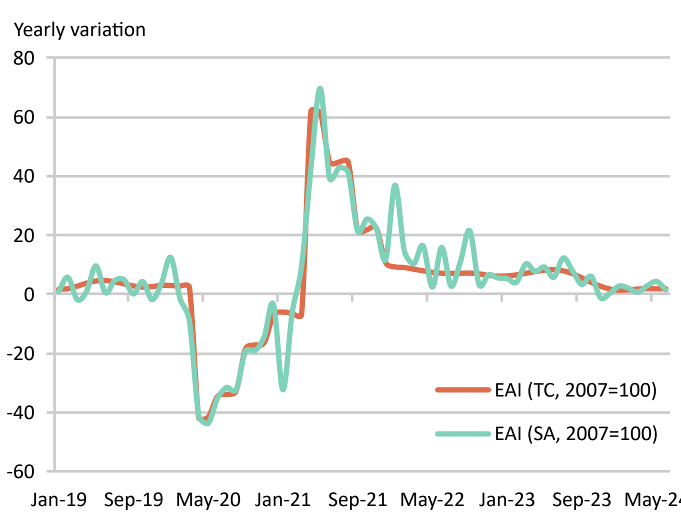
Panama has long dealt with anti-money laundering and counter-terrorism financing (AML/CFT) issues, which affected its attractiveness as an offshore center, but it has made solid progress in recent years. Authorities implemented important reforms to promote governance and transparency. These include modification of the AML/CFT prevention regulation and significant improvements in beneficial ownership information, which led Panama to exit the International Financial Action Task Force's list of jurisdictions in October 2023 and the EU's list for non-cooperative jurisdictions in March 2024. Comprehensive reforms in Public Private Partnerships (PPP) and procurement helped increase PPP financing for critical infrastructure.

Despite high growth, poverty reduction, and reform progress, new challenges have emerged. A legal challenge to the contract of the largest mine (Cobre Panama) triggered street protests and social unrest. Ultimately the Supreme Court declared the contract unconstitutional, stopping all extraction activities. Additionally, a prolonged drought limited the number of vessels that could cross the Panama Canal. These events have large economic impacts compounding the fiscal risks associated with Panama's low tax revenues.

Recent developments

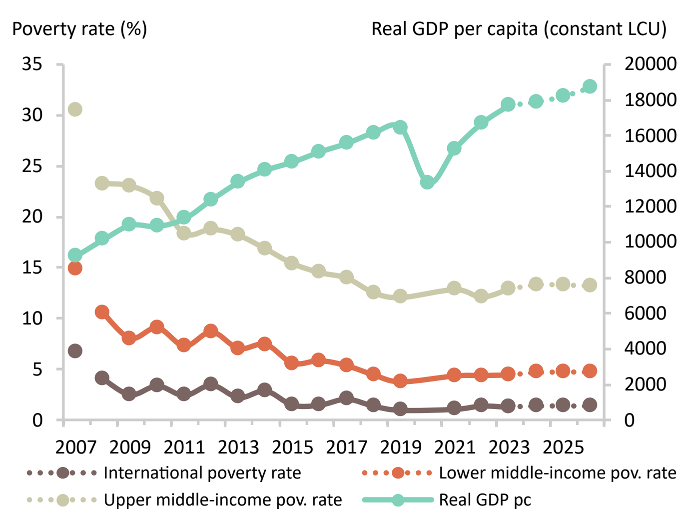
GDP grew a robust 7.3 percent in 2023, driven by construction, transport and storage, wholesale and retail, utilities, business services, and hotels and restaurants; these six sectors collectively employ 45 percent of workers. However, economic activity has decelerated sharply since Q42023 and expanded only 2.1 percent in the first half of 2024. Inflation decreased to 1.5 percent in 2023 and 0.5 percent in the first half of 2024, led by lower transport and food prices.

FIGURE 1 Panama / Economic activity index (seasonally adjusted and trend cycle)



Sources: National Institute of Statistics and Census of Panama, Haver Analytics, and World Bank staff calculations.

FIGURE 2 Panama / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

Progress in poverty reduction stalled in 2023 (Figure 2). Although the unemployment rate improved from 9.9 percent in April 2022 to 7.4 percent in August 2023, declining support from the NPPS counteracted gains in the labor markets. While rural poverty remained steady, urban poverty increased by 1 p.p. over the same period.

The fiscal and primary deficit declined in 2023, reaching 3.3 percent and 0.1 percent of GDP, respectively. This was attributed to restrained government spending and one-off revenues, including royalties and taxes paid by the copper mine and proceeds from land sale to the Canal Authority. The fiscal position deteriorated sharply in early 2024 due to spending pressures associated with the electoral cycle and lower-than-expected revenues. A new administration took power in July 2024 and made fiscal rebalancing and settling arrears priorities.

The current account deficit increased to 4.5 percent of GDP, due to a decline in copper exports, a temporary increase in the Colon Free Trade Zone imports, and income outflows. Foreign direct investment (FDI) decreased from 3.8 percent of GDP in 2022 to 1.8 percent in 2023, partially reflecting lower investment in extractives.

Outlook

Growth is expected to sharply decline to 2.4 percent in 2024 as copper production comes to a halt; however, the dynamism in the services sector should help gradually lift growth over the medium term. Inflation is expected to stabilize at around 2 percent during the forecasting period. Despite these, poverty (US$6.85 a day per capita, 2017 PPP) is projected to stagnate over the medium run as the loss in non-labor income due to the discontinuation of NPPS is unlikely to be compensated with labor income gains, especially in rural areas, where 74 percent of the poor reside and still lack opportunities to benefit from the country's growth process.

The fiscal deficit is expected to widen to 4.6 percent of GDP in 2024, impacted by lower revenues and higher expenditure, before gradually declining to around 3 percent by 2026. This fiscal consolidation process relies on further containing spending and improving tax administration. Public debt is forecast to peak at 60.9 percent of GDP in 2025 and decline gradually there. Implementing new structural fiscal reforms, especially on revenue mobilization, could accelerate this decline. Despite downward pressures on the sovereign ratings following the closure of Cobre Panama, the country still has good access to financing as a stable dollarized economy.

The current account deficit is projected to widen to 4.7 percent of GDP in 2024 and narrow gradually afterward. Merchandise exports are expected to remain subdued while service exports expand, supported by transport and tourism. FDI is estimated to recover gradually to 3.8 percent of GDP by 2026, continuing to finance most of the current account deficit, supplemented by portfolio investment and public financing. International reserves are expected to stay around 13 percent of GDP for 2024-2026.

Panama's macro-outlook is subject to risks. The next administration will need to address structural fiscal challenges, address socio-economic disparities through an improved social protection system, and make progress in climate adaptation, which poses additional social and economic risks, as droughts affect canal activities. Tight international financing markets could further increase Panama's borrowing costs.

TABLE 2 Panama / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	15.8	10.8	7.3	2.4	3.0	4.0
Private consumption	5.3	-1.2	2.1	2.1	3.1	3.7
Government consumption	6.0	3.6	2.9	4.3	-1.9	2.2
Gross fixed capital investment	31.0	20.7	28.8	-9.0	5.5	6.8
Exports, goods and services	29.6	26.2	-1.4	-0.7	3.5	4.3
Imports, goods and services	34.0	34.8	23.1	-9.3	2.6	4.0
Real GDP growth, at constant factor prices	15.8	10.8	7.3	2.4	3.1	4.0
Agriculture	4.7	5.2	0.2	1.5	1.4	1.3
Industry	30.2	12.3	12.7	-1.5	0.1	1.5
Services	11.9	10.5	5.6	3.9	4.2	4.9
Inflation (consumer price index)	1.6	2.9	1.5	1.5	2.0	2.0
Current account balance (% of GDP)	-1.2	-0.6	-4.5	-4.7	-2.3	-1.7
Net foreign direct investment inflow (% of GDP)	-2.0	-3.8	-1.8	-3.4	-3.7	-3.8
Fiscal balance (% of GDP)	-6.4	-4.1	-3.3	-4.6	-3.8	-3.1
Revenues (% of GDP)	17.8	17.7	18.2	17.2	17.5	17.6
Debt (% of GDP)	60.1	57.9	56.4	59.1	60.9	60.8
Primary balance (% of GDP)	-3.7	-1.9	-0.1	-1.5	-0.6	0.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.1	1.4	1.3	1.4	1.4	1.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	4.3	4.4	4.4	4.7	4.8	4.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	12.9	12.1	12.9	13.3	13.3	13.2
GHG emissions growth (mtCO2e)	7.0	9.8	8.1	5.0	3.9	3.3
Energy related GHG emissions (% of total)	46.7	50.7	53.8	55.7	57.1	58.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SEDLAC harmonization, using 2023-EH. Actual data: 2023. Forecasts are from 2024 to 2026. Estimated for 2022 using EPM data.
b/ Projections using microsimulation methodology.